



# **THE STATE OF FLORIDA**

## **OFFICE OF INSURANCE REGULATION MARKET INVESTIGATIONS**

**TARGET MARKET CONDUCT FINAL EXAMINATION REPORT**

**OF**

**AvMed, Inc.**

**AS OF**

**September 30, 2009**

**NAIC COMPANY CODE: 95263**

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## EXECUTIVE SUMMARY

The purpose of this examination was to verify the accuracy of the self-reported 2008 Gross Annual Premium and Enrollment (GAP) submission.

Data downloads provided by AvMed, Inc. (Company) were reviewed and reconciled to the amounts the Company submitted on their GAP Report and Annual Statement. The following represent general findings. Specific details are found in each section of the report.

<b>Summary of Findings</b>			
<b>GAP Reporting Area</b>	<b>Market Segment</b>	<b>Findings</b>	<b>Reason</b>
Total Direct Premiums Written	51+ Member Groups	Overstated by \$15,864,794	Incorrectly included Federal Employees Health Benefits Program (FEHBP)
Direct Losses Incurred	51+ Member Groups	Overstated by \$13,368,590	Incorrectly included Federal Employees Health Benefits Program (FEHBP)
Direct Premiums for New Business Only	6-50 Member Groups	Overstated by \$1,841,767	Amount should have been reported in Total Direct Premiums Earned
Employers/Groups	51+ Member Groups	Overstated by 1	Incorrectly included Federal Employees Health Benefits Program (FEHBP)
Primary Enrollees	51+ Member Groups	Overstated by 1,764	Incorrectly included Federal Employees Health Benefits Program (FEHBP)
Covered Enrollee Dependents	51+ Member Groups	Overstated by 2,009	Incorrectly included Federal Employees Health Benefits Program (FEHBP)
Average Number of Days to Pay Claims	Average of reported market segments	Understated by 7 Days	Did not calculate the average number of days by market segment and only included claims received during the calendar year 2008.

## PURPOSE AND SCOPE OF EXAMINATION

The Office of Insurance Regulation (Office), Market Investigations, conducted a target market conduct examination of AvMed, Inc. (Company) pursuant to Section 641.3905, Florida Statutes. The examination was performed by AGI Services. The scope period of this examination was January 1, 2008 through December 31, 2008. The examination began July 17, 2009 and ended September 30, 2009.

Pursuant to Section 627.9175, F.S., and Rule 69O-137.004 F.A.C., each health insurer, prepaid limited health services organization, and health maintenance organization is required to file a Report of Gross Annual Premiums and Enrollment Data for Health Benefit Plans Issued to Florida Residents (GAP) by April 1 of each year.

The purpose of this examination was to verify the accuracy of the data reported for each market segment in which the company conducts business. There are seven reporting areas required in the GAP submission.

- 1) Direct Premiums Earned for New and Renewal Business
- 2) Direct Losses Incurred
- 3) Direct Premiums Earned for New Business Only
- 4) Employers, if Group Coverage, at End of Reporting
- 5) Primary Insureds at End of Reporting
- 6) Covered Dependents at End of Reporting
- 7) Average Number of Days Taken to Pay Claims

The following procedures were used in conducting the review:

- Obtained a data download of direct premiums earned, direct losses, employers (if group coverage), primary insureds, covered dependents and claims paid. This data was reviewed and reconciled to the amounts the Company submitted on their GAP Report and Annual Statement.
- Analyzed data and performed computer aided audit techniques using ACL to verify the accuracy of the data provided and to determine the proper classification.
- Identified areas of concern and held discussions with Company personnel to address and understand these areas.

In reviewing materials for this final report, the examiner relied on records provided by the Company. Procedures and conduct of the examination were in accordance with the *Market Regulation Handbook* produced by the National Association of Insurance Commissioners.

## COMPANY OPERATIONS

AvMed, Inc. is a domestic Health Maintenance Organization licensed to conduct business in the State of Florida on May 17, 1973.

For calendar year 2008, the Company reported premiums in the following market segments: major medical in-state and administrative services only.

Total Direct Premiums Written in Florida for Accident and Health Premiums were as follows:

Year	Total Written Premium In Florida (Per Schedule T of the Annual Statement)
2008	\$659,875,132
2007	\$717,838,820

## GAP ANALYSIS AND RESULTS

### I. Direct Premiums Earned for New and Existing Business

**Findings:** The Company incorrectly included Federal Employees Health Benefits Plan (FEHBP) direct premiums earned of \$15,864,794 with Line 6: 51+ Member Groups.

**Corrective Action:** Federal Employees Health Benefits Plan (FEHBP) direct premiums earned should not be included on the GAP filing.

### II. Direct Losses Incurred

The Company uses an allocation method to report direct losses incurred by market segment.

**Findings:** The Company incorrectly included FEHBP direct losses incurred of \$13,368,590 with Line 6: 51+ Member Groups.

**Corrective Action:** FEHBP losses should not be included on the GAP filing.

### III. Direct Premiums Earned for New Business Only

**Findings:** The Company incorrectly included \$1,841,767 of renewal business, specifically, "product coverage changes," in direct premiums earned for new business only with Line 5: 6-50 Member Groups.

**Corrective Action:** The Company should review its manual process for "product coverage changes" to ensure accurate reporting of direct premiums earned for new business only on the GAP filing.

IV. **Employers, if Group Coverage, at End of Reporting**

**Findings:** The Company incorrectly included FEHBP with Line 6: 51+ Member Groups. This resulted in the group count being overstated by one group.

**Corrective Action:** FEHBP should not be included as a group on the GAP filing.

V. **Primary Insureds at End of Reporting**

**Findings:** The Company incorrectly included FEHBP with Line 6: 51+ Member Groups. This resulted in the primary insureds count being overstated by 1,764.

**Corrective Action:** FEHBP primary insureds should not be included on the GAP filing.

VI. **Covered Dependents at End of Reporting**

**Findings:** The Company incorrectly included FEHBP with Line 6: 51+ Member Groups. This resulted in the covered dependents count being overstated by 2,009.

**Corrective Action:** FEHBP covered dependents should not be included on the GAP filing.

VII. **Average Number of Days Taken to Pay Claims**

**Findings:** The Company did not calculate the average number of days to pay claims by market segment and did not include claims received prior to January 1, 2008. The Company's calculation methodology does not adhere to GAP instructions and resulted in a lower average number of days taken to pay claims. The average number of days to pay claims was understated by seven days.

**Corrective Action:** The Company should calculate the average number of days taken to pay claims by market segment and should include all claims paid in the report year, irrespective of the date received.

**EXAMINATION FINAL REPORT SUBMISSION**

The courtesy and cooperation of the officers and employees of the Company during the examination are acknowledged and appreciated.

Examiners participating with this exam were:

John B. Humphries, ASA, MAAA, CFE, CISA, AES, MCM – Managing Partner, AGI Services

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